

立法會

Legislative Council

LC Paper No. CB(3)166/2025(04)

Ref: CB3/PL/HS

Panel on Health Services

Meeting on 14 February 2025

Background brief on the loan arrangement for CUHK Medical Centre

Purpose

This paper provides background information on the loan arrangement for the CUHK Medical Centre (“CUHKMC”) and summarizes the major concerns expressed by Members of the Legislative Council on the subject.

Background

2. In 2014, the Chinese University of Hong Kong (“CUHK”) proposed to develop a non-profit-making private teaching hospital on its own site. CUHK accepted the Government’s invitation to meet the Minimum Requirements¹ and undertook to use packaged charges extensively and take up referrals of specialist outpatient and day procedure cases from the Hospital Authority on an ongoing basis. As a result, the Executive Council endorsed CUHK’s lease modification application at a nominal premium of \$1,000 for the development of CUHKMC in February 2015.

3. On 17 April 2015, the Finance Committee (“FC”) approved the provision of the Government loan of \$4,033 million under the Loan Fund to CUHK Medical Centre Limited, a wholly-owned subsidiary of CUHK. Subsequently, the Government and CUHK Medical Centre Limited entered into a Loan Agreement and a Service Deed on 28 October 2016.

¹ Covering aspects such as service scope, price transparency, standard beds at packaged charges, service standards and reporting.

4. The principal terms and conditions of the Government loan approved by FC in 2015 were as follows: the first five years from the first drawdown of the Government loan (i.e. from March 2017 to March 2022) would be interest-free, whereas from the sixth year onwards a floating rate would be charged equivalent to the interest rate of the Government's fiscal reserves placed with the Exchange Fund. CUHKMC was required to make repayments in ten annual instalments in the sixth year from the first drawdown (i.e. 2023), with the last repayment instalment to be made within 15 years as from the first drawdown (i.e. 2032). Each instalment comprised the annual repayment of principal in ten equal instalments (i.e. \$403.3 million per instalment) plus interest charged on the amount of outstanding loan.

5. CUHKMC commenced operation in September 2021 in the midst of the COVID-19 epidemic, severely undermining CUHKMC's liquidity and financial robustness in its first year of operation. The first repayment instalment to the Government loan was originally due on 19 March 2023. On 10 February 2023, the Administration consulted the Panel on Health Services ("the Panel") on its proposal to extend the repayment period by five years (to 2028) in view of CUHKMC's difficulty in repaying the loan as scheduled. As individual Members had different views on the extension of the repayment period, the Administration subsequently adjusted the proposal for the Government to grant CUHKMC the first two-year extension, and, subject to review of CUHKMC's financial situation by the Panel, to seek further approval from FC for the Government to grant CUHKMC the remainder three-year extension for loan repayment. On 24 February 2023, FC approved the proposal. CUHKMC would be required to provide public medical services throughout a 15-year period in lieu of the estimated loan interest foregone due to the aforesaid extension ("services in lieu of interest").

6. The Administration and CUHKMC provided the Panel with an update on the operation of CUHKMC on 15 March 2024. The Administration advised that it would continue to monitor the operation of CUHKMC and report to the Panel again before the expiry of the two-year loan extension (i.e. by March 2025), with a view to deciding whether to seek FC's approval for the remainder three-year extension.

Views and concerns of Members

General views

7. At the meetings of the Panel and FC, although some Members had expressed dissatisfaction that the Administration and the relevant units had not consulted them on the revised loan arrangement at an earlier stage, Members **generally supported the extension of the loan repayment period**

of CUHKMC so as to keep it operating. Most members acknowledged the value of existence of CUHKMC and pointed out that not only was CUHKMC a private hospital, but it also provided financial support for the CUHK Faculty of Medicine to pursue research and education. With the continuous increase in the number of student places in medical disciplines in Hong Kong, CUHKMC would bring its educational function into play. In addition, CUHKMC collaborated with public hospitals on various fronts to help ease the pressure on the public healthcare system. Some other Members pointed out that CUHKMC's transparent package prices could effectively resolve the current problem of exorbitant fees resulting from free pricing by private doctors, providing suitable choices for the middle class.

8. Being optimistic about the future financial status of CUHKMC, some Members pointed out that the demand for hospital services would increase amid population ageing. Therefore, they considered that CUHKMC should be able to reach financial breakeven in the future.

Arrangements in case of failure to repay loan with extension of loan repayment period

9. Some Members enquired whether **CUHK would pledge to compensate the Government if CUHKMC failed to repay the loan to the Government in 2028**, and urged CUHKMC to **formulate a contingency plan for failure to repay the loan**.

10. The CUHK Council clarified that if CUHKMC failed to fulfil the obligation to provide services generated from the extension throughout the 15-year period, the University would pay damages for CUHKMC to the Government, which would not cover the principal of the some \$4 billion government loan. The Administration added that the loan agreement signed between the Government and CUHKMC had nothing to do with CUHK. With all assets of CUHKMC serving as security for the loan, the Administration had the right to repossess CUHKMC if CUHKMC failed to repay the some \$4 billion government loan by the specified time.

Measures to generate revenue and control costs

11. Some Members asked **whether CUHK would consider injecting further funds into CUHKMC** to resolve its financial problems. The Treasury of CUHK explained in 2023 that it had already capitalized CUHKMC at \$2,638 million comprising donations from various parties and a capital contribution of \$500 million from reserves in the CUHK Endowment Fund. As the CUHK Endowment Fund was required to generate income for current and future educational activities of CUHK, further funding for CUHKMC might deprive CUHK of its ability to generate

income. Nevertheless, CUHK and CUHKMC would continue to solicit donations to inject funds into CUHKMC.

12. Some Members expressed concern about **what measures CUHKMC would take to increase revenue**, and suggested that **CUHKMC should provide incentives to strengthen cooperation with larger local insurance companies and attract more residents and athletes from the Greater Bay Area to use CUHKMC's services** to achieve higher usage rate.

13. CUHK advised that more and more local insurance companies were interested in packaged services and fixed-price fees, which had promoted mutual cooperation. CUHKMC would actively explore business opportunities, including attracting more visiting doctors and launching medical check-up services for corporate clients. CUHKMC's bed occupancy rate had also improved compared to the period during the epidemic.

14. Members shared the concern that although the revenue of CUHKMC in the second half of 2023 had increased by 1% compared with the budget, the operating costs had increased by 3%. They enquired **what measures would be taken to control operating costs**. CUHKMC explained that the number of oncology patients had far exceeded the budget, and the related drug costs were high but the profit margins were relatively low, resulting in a profit difference. Average costs had also increased due to medical consumables inflation in the second half of 2023. CUHKMC was reducing drug waste and had adjusted fees in order to achieve a reasonable profit. In addition, CUHKMC would strictly control staff costs and adjust salaries according to staff performance.

Proposal to provide public medical services in lieu of the estimated loan interest originally payable due to the extension

15. Some Members enquired about the **services to be provided to ease the pressure on public hospitals if CUHKMC provided services in lieu of interest**. Some other Members considered that the 23 hospital beds to be provided by CUHKMC for public medical services were too few in number. They **expressed the hope that CUHKMC could take up items with longer waiting time, such as cataract surgery**.

16. The Administration explained that it had calculated the estimated interest originally payable by CUHKMC due to the extension for repayment based on the unit cost per patient day for general inpatient service in public hospitals. The amount was roughly equivalent to 120 749 inpatient bed days (approximately 23 inpatient beds on a continuous basis throughout the

15-year period). Such amount of interest could be substituted by various types of services, including specialist outpatient services and imaging services, etc. CUHKMC added that it would discuss with the Administration ways to help address the major stress points in the public healthcare system.

17. Some Members expressed concern **why** the Administration **proposed CUHKMC's provision of services in lieu of interest**, as opposed to charging interest directly. Some other Members enquired **which government department would be responsible for monitoring CUHKMC's fulfilment of the aforesaid service obligation and how the public would be given an account of the relevant information.**

18. The Administration advised that provision of services in lieu of interest could not only shorten the waiting time for public hospital patients, but also enhance the service volume of CUHKMC and thus optimize the use of resources. If the revised loan arrangement was endorsed, the Health Bureau would review annually CUHKMC's fulfilment of the aforesaid service obligation and consider whether to make public the outcomes.

Term of extension for repayment

19. Some Members enquired how the **five-year extension period had been calculated, and how confident the Administration was in CUHKMC's ability to repay the loan after five years.** Some other Members expressed concern **whether there would be no need for a five-year extension if the financial situation of CUHKMC improved in the future.**

20. The Administration advised in February 2023 that it was not easy to establish a private hospital with the elements of reform and innovation, and it was very difficult to get a clear view of its actual governance and financial status within a short period of time. According to the financial projection report of CUHKMC prepared by an independent financial consultant submitted by CUHKMC to the Government, CUHKMC was capable of repaying its loans and breaking even in 2028. CUHKMC said that if it was able to repay the loan early, it would discuss the matter in detail with the Government and all parties again.

Governance of the Medical Centre

21. Some Members expressed concern about **how the governance of CUHKMC could be improved.** The Administration advised that in order to monitor the cash flow position of CUHKMC to ensure that it had sufficient cash to meet the proposed repayment period, the Government had nominated

director(s) to the Board of Directors of CUHKMC and requested CUHKMC to report on its annual business plan and financial status, including its latest cash flow position.

Hospital manpower

22. Some Members expressed concern about the impact of the **COVID-19 epidemic and the shortage of nurses on the business of CUHKMC**. Some other Members **suggested that CUHKMC be allowed to introduce nurses from the Greater Bay Area to solve the manpower shortage problem**. The Administration advised that during the epidemic, members of the public avoided seeking medical treatment in hospitals due to concerns about infection, which affected the business of private hospitals. Pointing out that the shortage of nurses had indeed affected the hospital's operations, CUHKMC advised that it would continue to recruit staff and retain talent.

Relevant papers

23. The hyperlinks to the relevant papers are in the **Appendix**.

Recent development

24. The Administration will report to the Panel on 14 February 2025 the financial situation of CUHKMC to seek further approval from FC for the Government to grant CUHKMC the remainder three-year extension for loan repayment.

Loan arrangement for CUHK Medical Centre

List of relevant papers

Committee	Date of meeting	Paper
Panel on Health Services	10 February 2023	Agenda Item V: Revision to loan arrangement for CUHK Medical Centre Minutes Follow-up paper
	15 March 2024	Agenda Item III: Update on the operation of CUHK Medical Centre Minutes Follow-up paper
Finance Committee	17 April 2015	Agenda Item IV: LOAN FUND NEW HEAD - “PRIVATE HOSPITAL DEVELOPMENT” New Subhead “Loan for the CUHK Medical Centre Development Project” Minutes
	24 February 2023	Agenda Item III: LOAN FUND HEAD 280 - PRIVATE HOSPITAL DEVELOPMENT Subhead 101 Loan for the CUHK Medical Centre Development Project Minutes